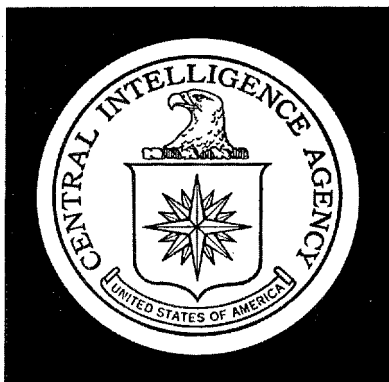


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10 July 1969

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No. 0164/69
10 July 1969

Central Intelligence Bulletin

CONTENTS

Vietnam: Situation report. (Page 1)

Laos: The effort to recapture Muong Soui has made little progress. (Page 3)

Israel: The air force is adopting a more aggressive stance. (Page 4)

Panama: The junta may soon press the US to resume canal treaty negotiations. (Page 5)

Uruguay: President Pacheco has placed the nation's police forces under military control. (Page 6)

Czechoslovakia: New measures are being taken to improve the country's economic situation. (Page 7)

Warsaw Pact: Rumors of exercises (Page 8)

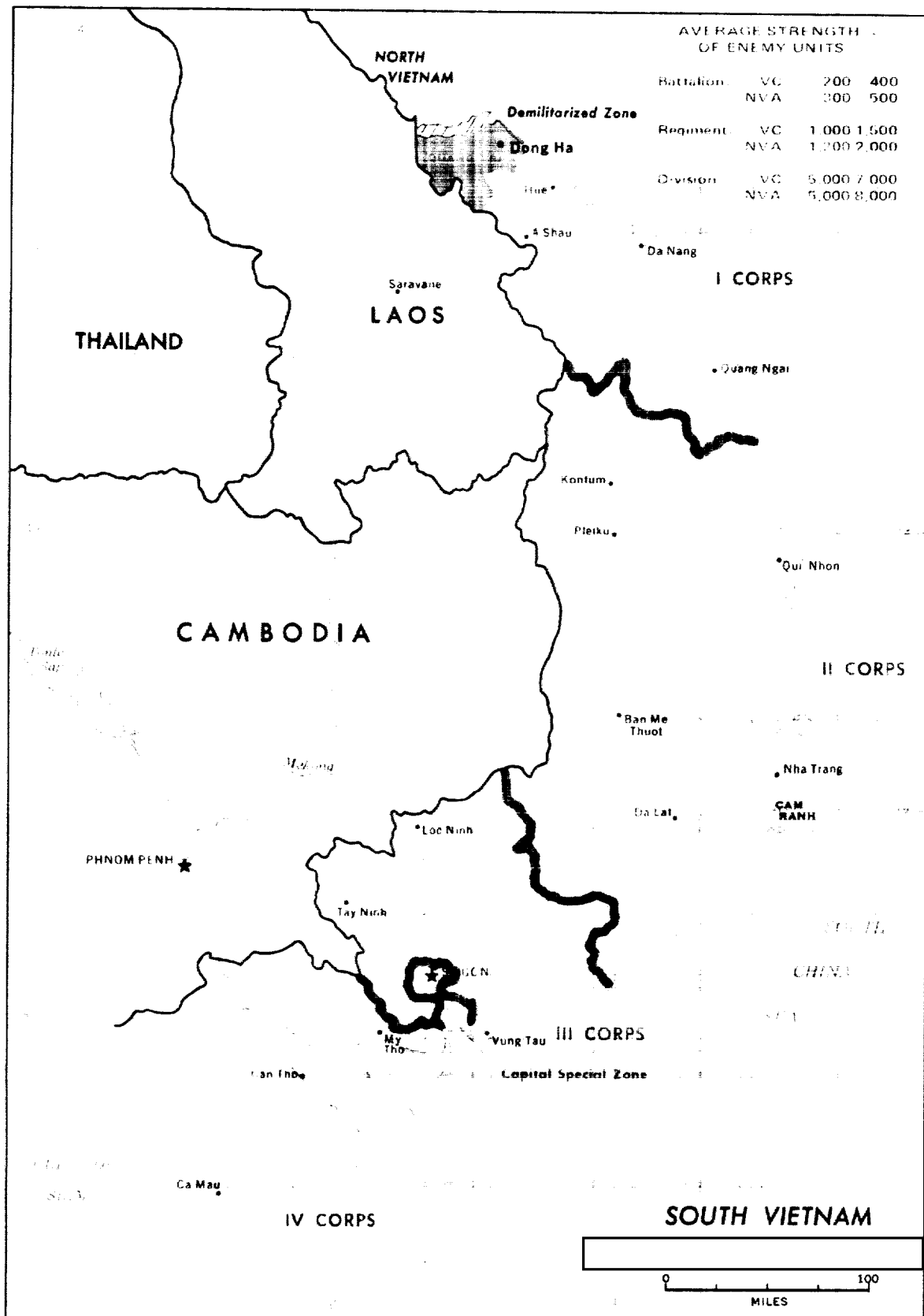
East Germany - Egypt: Recognition (Page 8)

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[Vietnam: Communist mortar and rocket forces slightly stepped up the pace of their shellings on 9-10 July, according to press reports.

Some ten enemy rockets hit a South Vietnamese Army dependents housing area in Bien Hoa Province, highlighting some 29 separate attacks throughout the country. In addition, enemy forces reportedly hit a US truck convoy some 65 miles northwest of Saigon, killing four US soldiers. Enemy forces lost 22 in the attack. North Vietnamese regulars lost 42 killed during two abortive attacks against South Vietnamese troops near Dong Ha in Quang Tri Province. The only other significant ground contact with the enemy occurred in I Corps as US troops lost nine killed and seven wounded after being ambushed by a company of Viet Cong.

* * * *

Most South Vietnamese seem to be taking the initial US troop withdrawals in stride. A recently completed public opinion survey showed the populace to be largely unconcerned with the prospect of the withdrawals or with the South Vietnamese Army's ability to handle the enemy. Several military men, such as the commander of South Vietnam's 7th Division at My Tho, where the public is somewhat apprehensive, expressed confidence that Vietnamese forces could take up the slack left by the departing Americans.

On the other hand, some Vietnamese officers are expressing misgivings that "Vietnamization" of the war may proceed too rapidly. The chief of the South Vietnamese Army's general staff, Major General Tran Thanh Phong, reportedly has said that he fears South Vietnamese troops will suffer a loss of efficiency as US units withdraw, will become too thinly spread, and will lack sufficient military hardware to maintain pressure on the enemy. **]**

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10 Jul 69

Central Intelligence Bulletin

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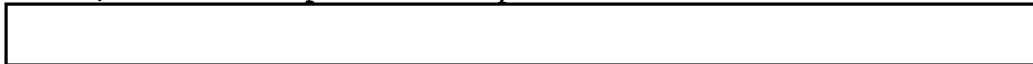
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[Le Duc Tho, a senior member of the North Vietnamese politburo, left Paris on 9 July and is en route back to Hanoi, according to one press report. He had been in Paris for about nine weeks since his last trip to North Vietnam for consultations.

Xuan Thuy, the official head of the North Vietnamese delegation, returned to Paris only last weekend after a month-long stay in Hanoi. It is conceivable that Thuy brought back news of indecision or differences within Hanoi's leadership over the war or bargaining strategy and that Tho, as a politburo member, was recalled to participate in new deliberations.

Tho's return, however, could be connected with domestic or party matters rather than with the Paris talks. There have been persistent signs of regime concern over lack of responsiveness to its policies by the populace and parts of the party apparatus. As the country's ranking expert on party organization, Tho has special responsibilities in these areas.



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10 Jul 69

Central Intelligence Bulletin

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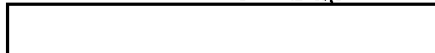
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Laos: The week-old effort to recapture Muong Soui has made little progress.

Government forces have moved into the high ground overlooking Muong Soui from the north, but poor weather and a stiffening enemy defense have hampered attempts to close in on the base from other directions. Added to this has been the unwillingness of progovernment neutralist forces to press attacks against the enemy. These forces were regrouped after the fall of Muong Soui to play a prominent role in the operation.

The Communists have the option to put additional pressure on Vang Pao's thinly-stretched forces by attacking government guerrilla bases north of the Plaine des Jarres. The local defense forces in this area were recently weakened in order to support the Muong Soui operation.



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10 Jul 69

Central Intelligence Bulletin

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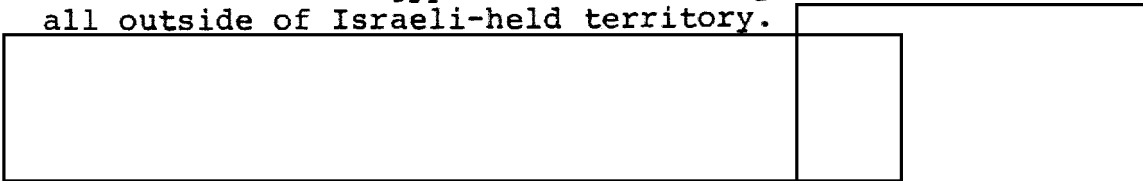
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Israel: The Israeli Air Force is adopting a more aggressive stance.

This seems to reflect Israeli frustrations growing out of the endless harassment by fedayeen and Arab regular forces, and the Arab states' continuing refusal to come to the peace table. Apparently convinced that a satisfactory peace agreement is still far off, Israel seems to have set its course on a "no budge, hit hard" policy to demonstrate to the Arabs and the Big Powers that it will not accept any unsatisfactory settlements.

In the last two weeks, Israeli pilots reportedly have downed nine Egyptian and seven Syrian MIG-21s, all outside of Israeli-held territory.



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10 Jul 69

Central Intelligence Bulletin

4

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Panama: The junta may soon press the US to resume canal treaty negotiations.

Both national guard strongman Torrijos and his foreign minister have recently hinted to the press that the treaty question is currently being examined. General Torrijos reportedly told newsmen that the government has plans to recover Panama's sovereignty over the canal and is confident that the "suspended" negotiations can be reopened.

Torrijos is looking to a new canal settlement as the "only solution" to the government's economic problems [redacted] The guard commandant plans to appoint a commission soon to renew bilateral talks. These lapsed in late 1967 after the completed treaty drafts leaked out in Panama. The proposed treaties met heavy criticism in Panama and further action on them was forestalled by the impending presidential election campaign.

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In order to circumvent the usual constitutional procedures of treaty ratification by the national assembly, Torrijos is said to be thinking of holding a plebiscite on the treaties. It is questionable, however, whether a pact bypassing the constitutional process would be honored by succeeding governments.

Torrijos may hope to initiate discussions on the treaty issue during a planned visit to the US in August or September. [redacted]

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10 Jul 69

Central Intelligence Bulletin

5

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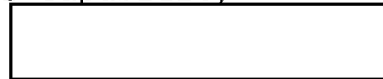
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Uruguay: President Pacheco has placed the nation's police forces under military control in an effort to stem subversion and violence.

The President's decree followed the fatal shooting on 7 July of a Montevideo policeman by the Tupumaros, Uruguay's most active terrorist group. Under the new rule, civilian police will remain under the overt control of the minister of interior, but they will not be responsible for their acts under civil law. The police are thus freed from liability in the event "shoot-to-kill" orders to control disorder are carried out.

President Pacheco also prohibited the nation's news media from publicizing the exploits of the Tupumaros or other subversive groups.

The US defense attaché reports that military personnel are being used in increasing numbers for police duties. The opening of the national university next week has caused some apprehension and President Pacheco may be reinforcing his capability to move against student troublemakers.



25X1

10 Jul 69

Central Intelligence Bulletin

6

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Czechoslovakia: On 7 July, Czech Premier Razl outlined the latest in a series of measures to be taken by the federal government and by the governments of the two republics to improve the country's economic situation.

Razl stated that attainment of economic stabilization is still three years away. Economic measures to be introduced in the Czech republic include higher retail prices, tighter controls on wage increases, and reduced government expenditures; plans are also being prepared to stimulate production for the domestic market and for export. In the Slovak republic, the most recent of a series of new economic measures is a law to control wages.

The federal government has introduced additional price changes since last May, when it raised some prices as the first step in a new austerity program. A temporary freeze on wholesale prices also has been put into effect, and on 1 July bonus payments were prohibited until agreements are reached between enterprises and the central authorities on the precise limits of allowable increases. Federal Premier Cernik recently announced a ban on new capital construction projects and said that the government is planning additional stabilization measures.

A number of government-enterprise agreements regulating production, wages, and prices are scheduled to be concluded by 15 July. These are designed to solve managerial problems at the enterprise level and will be the basic means by which the state will implement its regulations. The agreements will further centralize control of the economy by the Husak government and will move further away from the liberal economic reforms anticipated under Dubcek.



10 Jul 69

Central Intelligence Bulletin

7

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25X1 Warsaw Pact: Rumors are circulating in Eastern Europe [] that a Warsaw Pact exercise in mid-August will bring massive forces (32 to 40 divisions) to the borders of West Germany, Austria, and Yugoslavia, which would put them close to Romania. Such an exercise cannot be completely ruled out, but one of such unprecedented magnitude seems improbable at that time. The rumors []

25X1 [] may be intended to intimidate Romania and Yugoslavia, as well as Czechoslovakia, where there is the possibility of trouble on the first anniversary of the invasion. []

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25X1 East Germany - Egypt: An Egyptian Government spokesman confirmed yesterday that Cairo will recognize East Germany. In their efforts to obtain recognition abroad, the East Germans have long concentrated on Egypt. Cairo's decision is a major breakthrough. Egypt will be the sixth country, and the most important, to recognize East Germany since 30 April. []

10 Jul 69

Central Intelligence Bulletin

8

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